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HOUSE OF REPRESENTATIVES
REPORT
102-264

EXTENSION OF NONDISCRIMINATORY TREATMENT (MOST-FAVORED-NATION TREATMENT) TO PEOPLE'S REPUBLIC OF BULGARIA

OCTOBER 22, 1991.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.J. Res. 282]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the joint resolution (H.J. Res. 282) approving the extension of nondiscriminatory treatment with respect to the products of the People's Republic of Bulgaria, having considered the same, report favorably thereon and recommend that the joint resolution do pass.

BACKGROUND AND SUMMARY, INCLUDING REASONS FOR CHANGE

Like many other countries in eastern and central Europe, Bulgaria has undergone tremendous change in recent years on the economic and political front. The former communist regime was replaced in elections held in June 1990. Bulgaria has adopted a major economic reform program and joined the International Monetary Fund (IMF) for the first time in September 1990. Emigration policies support free emigration, and the previous repression of Turkish and other minorities has stopped. The U.S. Department of State reports that there are no systematic human rights abuses in Bulgaria, in contrast to problems that existed in that area under the communist regime.

The transition from nearly exclusive trade and economic ties with the Soviet Union toward greater ties with western industrial countries has been a sharp blow to Bulgaria's economy. The economy, including international trade, is functioning largely on a cash-only basis, which places severe constraints on Bulgaria's ability to satisfy the needs of its economy and people. Bulgaria in the past

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received its oil from the Soviet Union or from Iraq via the Soviet Union. The Soviets' requirement that that trade with its former bloc partners be carried out on a hard currency basis—at substantially higher prices, especially for oil—coupled with Bulgaria's participation in the United Nations sanctions against Iraq, has resulted in shortages of oil. Bulgaria has experienced power shortages and rolling blackouts as a result. About a dozen U.S. companies are engaged in joint venture activities with Bulgarian partners, particularly in the agriculture sector, but also in footwear and chemicals. Bulgaria has a foreign debt of about $10 billion and suspended payments on that debt in 1990. Bulgaria is working with the IMF to restructure and reduce its indebtedness.

On January 23, 1991, the President for the first time waived the application of sections 402 (a) and (b) of Title IV of the Trade Act of 1974 with respect to Bulgaria, upon a determination that such a waiver would substantially promote the Act's objectives relating to freedom of emigration. The waiver made Bulgaria eligible immediately for U.S. Government credits, credit guarantees, and investment guarantees. A bilateral trade agreement, signed in Washington on April 22, 1991, was negotiated under authority of Title IV, along with side letters on intellectual property rights, travel and tourism, currency convertibility, business facilitation, and other matters. (The agreement is described in greater detail below.) The agreement and the side letters were submitted formally to the Congress for its consideration on June 25, 1991 (H. Doc. 102–105). A joint resolution approving the extension of most-favored-nation (MFN) treatment to the products of Bulgaria (H.J. Res. 282) also was introduced on June 25.

A study by the General Accounting Office (GAO) in March 1991 (GAO/NSIAD–91–150BR) on U.S.-Bulgarian trade noted that, at less than $45 million in 1990, U.S. imports from Bulgaria account for less than one-tenth of one percent of total U.S. imports. Therefore, even a substantial increase in U.S. imports from Bulgaria as a result of granting MFN status to that country would have only a small impact on total U.S. imports, according to GAO. U.S. imports from Bulgaria averaged $45 million between 1987 and 1989, with tobacco, fertilizers, oil products, cheese, and alcoholic beverages the leading imports. U.S. imports in 1990 were $47 million. U.S. exports to Bulgaria averaged $132 million annually between 1987 and 1989, with maize, oilseeds, wheat, copper, and barley being the leading exports. U.S. exports declined substantially in 1990 to $84 million, due primarily to deep recession in Bulgaria and a shortage of hard currency. Despite the decline in total U.S. exports, however, U.S. exports of machinery and transport equipment rose substantially, to $63 million in 1990, up from $16 million in 1989.

The purpose of H.J. Res. 282 is to approve the extension of nondiscriminatory, MFN status to Bulgaria, subject to annual renewal by the President under the terms of Title IV of the Trade Act of 1974. The Committee believes that such action would send an important message of U.S. support to the efforts of Bulgaria to reform its economy and reorient its trade from the Soviet Union to the United States and other western industrial countries. Moreover, granting MFN status would entail little cost to the United States

economy and could benefit U.S. traders and investors seeking greater ties with firms in Bulgaria.

Description of agreement

The U.S.-Bulgarian trade agreement contains numerous provisions designed to facilitate two-way trade between the two countries. The agreement provides that the United States and Bulgaria will accord MFN treatment to the products of the other and also will accord to the other's products MFN treatment with respect to the allocation of and access to currency needed to pay for such imports. The agreement obligates each country to maintain a "satisfactory balance of market access opportunities," taking into account such factors as tariffs and nontariff barriers. Under the agreement, trade between the two countries is to be conducted by means of contracts concluded as exercises of independent commercial judgment on the basis of nondiscrimination and customary commercial considerations. In addition, neither country will require or encourage barter or countertrade.

Additional provisions in the agreement are designed to promote trade and facilitate transactions between the two countries. Included in the agreement are measures that:

(a) Facilitate the holding of trade promotion events;

(b) Permit government commercial offices to hire directly host- and third-country nationals and permit access to officials at the national and subnational levels;

(c) Ease the establishment of private "commercial representations," the direct hire of employees, importation of office equipment, access to office space and living accommodations, employment of agents and distributors, the stocking and distribution of samples and replacement parts, advertising and market research;

(d) Improve the transparency of laws, regulations and rulings that affect trade, investment and other commercial matters;

(e) Require that trade between the two countries be conducted in U.S. dollars or other convertible currencies, unless the parties to individual transactions agree otherwise; bind the countries not to restrict the export of convertible currencies or deposits obtained in connection with trade in goods and services; and require the parties to provide nondiscriminatory treatment with respect to a range of financial transactions;

(f) Provide adequate and effective protection of, and enforcement for, intellectual property;

(g) Provide procedures for import relief safeguards and the settlement of disputes, including guarantees that companies and nationals of each country will have access to the other's courts and administrative bodies; and

(h) Establish a Joint Commercial Commission to review the operation of the agreement and settle disputes promptly.

In addition, four side letters and documents were negotiated between the two countries, which form an integral part of the trade agreement. The first side letter expands in considerable detail upon the commitments Bulgaria has made relating to intellectual property rights. In the second side letter, Bulgaria pledges to make its currency convertible as soon as possible. That letter also expands

on certain business and consultative procedures contained in the agreement. The third side letter concerns the promotion of tourism and travel-related investment and trade. A fourth document sets forth the terms of reference of the U.S.-Bulgaria Joint Commercial Commission, as referenced above.

COMMITTEE ACTION

H.J. Res. 282 was introduced on June 25, 1991, at the request of the Administration by Representatives Gephardt and Michel and was referred to the Committee on Ways and Means. The resolution subsequently was referred to the Subcommittee on Trade. The Subcommittee requested public comments on the resolution and the trade agreement with Bulgaria (WMCP: 102–18). Comments from a number of individuals, firms, and business associations all supported the agreement and the strengthening of U.S. trade ties with Bulgaria. On July 11, 1991, the Subcommittee ordered H.J. Res. 282 favorably reported, by voice vote, to the full Committee on Ways and Means, without amendment. On October 22, 1991, the Committee on Ways and Means ordered H.J. Res. 282 favorably reported to the House of Representatives without amendment. (Under the terms of Title IV of the Trade Act of 1974, H.J. Res. 282 is not subject to amendment.)

SECTION-BY-SECTION ANALYSIS AND COMPARISON WITH PRESENT LAW

Present law

Title IV of the Trade Act of 1974 (the so-called Jackson-Vanik amendment), as amended by the Customs and Trade Act of 1990, sets forth three requirements relating to freedom of emigration which must be met, or waived by the President, in order for the President to grant nondiscriminatory, MFN status to a nonmarket economy country. Title IV also requires that a trade agreement providing MFN status remain in force between the United States and the nonmarket economy country receiving MFN status; and it sets forth minimum provisions which must be included in such an agreement.

Sections 405(c) and 407(c) of the Trade Act, as amended, provide that a trade agreement, and a Presidential proclamation granting MFN status, shall take effect only after enactment of a joint resolution of approval. Such a resolution is subject to the fast-track implementing procedures of the House and Senate under section 151 of the Act, as amended. Under these procedures, the House and Senate have a maximum of 90 legislative days to enact a joint resolution of approval; and the resolution is not subject to amendment.

Explanation of provisions

Bulgaria has never been granted MFN status under the terms of Title IV. H.J. Res. 282 states that the Congress approves the extension of nondiscriminatory treatment to the products of the People's Republic of Bulgaria transmitted by the President to the Congress on June 25, 1991.

OTHER MATTERS REQUIRED TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

Vote of the committee in reporting the resolution

In compliance with clause (2)(l)(2)(B) of rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote of the Committee in reporting the resolution. H.J. Res. 282 was ordered favorably reported without amendment by the Committee, by voice vote.

Oversight findings

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives relating to oversight findings, the Committee, based on public comments received on H.J. Res. 282, has completed a review of U.S. trade relations with Bulgaria, including the question of extending MFN status to that country. All public comments received by the Committee supported the extension of MFN status to Bulgaria. The Committee, therefore, has concluded that enactment of H.J. Res. 282 would contribute to improved trade ties between the United States and Bulgaria and enhance the prospects for Bulgaria's transition to a market-oriented economy.

With respect to clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives, no oversight findings or recommendations have been submitted to the Committee by the Committee on Government Operations with respect to the subject matter contained in the resolution.

Budgetary authority and cost estimates, including estimates of the Congressional Budget Office

In compliance with clause 2(l)(3)(B) of rule XI of the Rules of the House of Representatives, the Committee states that there are no tax expenditures on new budgetary authority providing financial assistance to State and local governments in the resolution.

In compliance with clause 2(l)(3)(C) of rule XI of the Rules of the House of Representatives, the Committee agrees with cost estimates furnished by the Congressional Budget Office on H.J. Res. 282 and required to be included herein:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, September 9, 1991.

HON. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.J. Res. 282, a joint resolution approving the extension of most-favored-nation (MFN) status to Bulgaria, as marked up by the Trade Subcommittee of the House Committee on Ways and Means on July 11, 1991. The CBO estimates that extending MFN status to Bulgaria would result in a $2 million reduction in federal government revenues in fiscal year 1992.

Under Title IV of the Trade Act of 1974, MFN status may not be conferred on a country with a nonmarket economy if that country maintains restrictive emigration policies. Because of this stipula-

tion, Bulgaria currently does not qualify for MFN status. Under present law, however, the President may waive this prohibition on an annual basis if he certifies that granting MFN status would promote freedom of emigration in that country. The President first waived this stipulation on January 22, 1991.

On June 3, 1991, the President notified Congress of his intention to extend the waiver of the application of Title IV of the Trade Act of 1974 with respect to Bulgaria for one year. On June 25, 1991, the President transmitted to Congress the trade agreement according MFN status to Bulgaria. H.J. Res. 282 approves the extension of MFN status to Bulgaria. Granting Bulgaria MFN status would lower tariff rates on imports from Bulgaria. The net effect on the federal budget of lowering the tariff rate would be a reduction in customs duty revenues below the level projected under current tariff rates. While imports would rise in response to the lower domestic price resulting from the lower tariffs, the negative effect on revenues of the lower tariff rates would outweigh the positive effect on revenues of the greater volume of imports. The CBO assumes that the trade agreement between the United States and Bulgaria will be implemented in fiscal year 1992 and estimates that the resolution would result in a reduction in federal customs duty revenues of $2 million in fiscal year 1992.

H.J. Res. 282 would affect receipts and thus would be subject to pay-as-you-go procedures under Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985. As a result, the estimate required under clause 8 of House Rule XXI also is attached.

PAY-AS-YOU-GO CONSIDERATIONS

[By fiscal year, in millions of dollars]

	1992	1993	1994	1995
Changes in outlays	(1)	(1)	(1)	(1)
Changes in receipts	−2	0	0	0

[1] Not applicable

If you wish further details, please feel free to contact me or your staff may wish to contact John Stell at 226-2720 or Trevor Alleyne at 226-2758.

Sincerely,

ROBERT D. REISCHAUER,
Director.

CONGRESSIONAL BUDGET OFFICE ESTIMATE [1]

The applicable cost estimate of this Act for all purposes of sections 252 and 253 of the Balanced Budget and Emergency Deficit Control Act of 1985 shall be as follows:

[1] An estimate of H.J. Res. 282, as marked up by the Trade Subcommittee of the House Committee on Ways and Means on July 11, 1991. This estimate was transmitted by the Congressional Budget Office on September 9, 1991.

	1992	1993	1994	1995
Changes in outlays	(1)	(1)	(1)	(1)
Changes in receipts	−2	0	0	0

[1] Not applicable.

INFLATIONARY IMPACT

With respect to clause 2(l)(4) of rule XI of the Rules of the House of Representatives, the committee states that H.J. Res. 282 would not have an inflationary impact on prices and costs in the operation of the general economy.

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